KEEGAN WERLIN LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3525

(617) 951-1400

TELECOPIERS:
(617) 951-1354
(617) 951-0586

July 28, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, MA 02110

Re: NSTAR Gas Company, D.T.E. 06-44

Dear Secretary Cottrell:

On behalf of NSTAR Gas Company (the "Company"), please find attached the Company's responses to the Department of Telecommunications and Energy's First Set of Information Requests in the above-referenced proceeding. Please note that confidential versions of the Company's responses to Information Requests DTE-1-2 and DTE-1-7 are being submitted under separate cover to the Hearing Officer and the Attorney General only, under seal.

Please contact me if you have any questions regarding the filing. Thank you for your consideration and assistance in this matter.

Very truly yours,

John K. Habib

Enclosures

cc: Carol M. Pieper, Hearing Officer
Andréas Thanos, Assistant Director, Gas Division
Ken Dell Orto, Gas Division
Elizabeth Jackson, Gas Division
Jamie Tosches, Assistant Attorney General

Information Request DTE-1-1

Refer to page 7 of Exh. MAG-1. The Company states that the termination date of the Algonquin Gas Transmission, LLC ("Algonquin") AFT-1 X-35 capacity that will be assigned to NSTAR by Northeast Energy Associates, a Limited Partnership ("NEA") is November 30, 2016, while the gas supply portion of the contract expires on March 31, 2012. How does the Company anticipate utilizing this capacity over the remaining four years of the transportation contract with Algonquin?

Response

The Company has demonstrated in this filing that it needs the Algonquin capacity, at a minimum, through the remainder if the term of its Load Forecast and Resource Plan (2010). Based on normal load growth during the forecast period and the years afterward, the Company is confident that the capacity will continue to be needed through 2016.

As for the gas supply portion of the NEA Agreement, the Company will follow its standard process for procuring gas supply in the future, as the gas supply portion of the NEA Agreement nears its termination. Pursuant to that process, the Company will issue a Request for Proposals for gas supply prior to 2012 and, based on bids received, the Company will determine which gas supply option is in the public interest based on: (1) its consistency with the Company's then-approved Load Forecast and Resource Plan; and (2) cost and non-cost factors. See, e.g., NSTAR Gas Company, D.T.E. 06-10.

Information Request DTE-1-2

Refer to pages 7-8 of Exh. MAG-1. The Company explains that NSTAR retains the right to take permanent assignment of certain storage and transportation resources in the event NEA relinquishes its rights. Please identify how the Company's total portfolio costs would change in the event that these resources are assigned to NSTAR. Please include the annual costs associated with each resource as well as the terms of each contract, e.g., duration, renewal clauses, that NSTAR would be assuming.

Response

REDACTED RESPONSE

If NSTAR Gas were able to take a permanent assignment of the upstream NEA storage and transportation contracts (the "Upstream Components"), the overall portfolio costs would decrease modestly. This is because the proposed NEA Agreement flows through all of the FERC-approved rates for the Upstream Components (which would be the same whether NEA owned the contracts or NSTAR Gas owned the contracts). The NEA Agreement also includes an "Annual Fuel Surcharge" and an "Annual Storage Management Fee," which would each be eliminated if NEA permanently released the Upstream Components to NSTAR Gas. All three of the contracts that comprise the Upstream Components terminate on March 31, 2012 and include provisions granting NSTAR Gas a right of first refusal.

The full FERC Tariff upstream contract costs include:

Annual Costs of NEA Upstream Contracts

Dominion Transmission				
GSS Storage	Dth	$/Dth/Mo	$/Year	
Deliverability - Demand	14,000	$1.8825	$316,260	
Capacity - Demand	1,400,000	$0.0145	$243,600	
Injection		$0.0202	$28,280	*
Withdrawal		$0.0169	$23,660	*
Fuel % (at injection)	2.56%			
FT-GSS				
Demand	14,000	$4.4230	$309,610	
Commodity		$0.0245	$33,254	*
Fuel %	3.05%			
Texas Eastern				
FTS-5				
Demand	14,000	$5.1790	$870,072	
Commodity		$0.0018	$2,443	*
Fuel %	0.00%			

* Annual commodity costs assume maximum annual quantities.

The "Annual Storage Management Fee" is **[REDACTED]** and the "Annual Fuel Surcharge" is equal to **[REDACTED]**.

Information Request DTE-1-3

Refer to pages 7-8 of Exh. MAG-1. Please explain in detail any possible reasons that would lead NEA to relinquish its rights to the resources needed as components of the path for gas deliveries under the contract.

Response

NSTAR Gas is not in a position to speculate about possible reasons why NEA might decide to relinquish its rights to some of its resources. NEA's decision would likely reflect its business objectives that are known only to NEA. NSTAR Gas has no means of independently determining those objectives..

Information Request DTE-1-4

Refer to pages 19-21 of Exh. MAG-1. According to the Company's testimony, NEA may eventually decide to exit the merchant function.

a. Please describe the impact that a decision by NEA to exit the merchant function would have upon: 1) the gas supply portion of the Agreement; and 2) the assignment of the Algonquin transportation contract.

b. How would the Company go about finding a replacement gas supply resource?

c. Does the Company have a plan or strategy that it will rely upon in the event that NEA exits the merchant function?

Response

a) If NEA exits the merchant function, NSTAR Gas would acquire NEA's upstream Dominion Transmission ("DTI") and Texas Eastern contracts (the "Upstream Components"), and purchase summer injection gas under its annual portfolio management contract to fill the DTI storage contract. During the winter, NSTAR Gas would likely include the Upstream Components in the regular NSTAR Gas portfolio management contract.

The Algonquin transportation contract would be unaffected by NEA exiting the merchant function, because it would be permanently released by NEA to NSTARGas upon Department approval of the NEA Agreement filed in this proceeding.

b) With access to the NEA Upstream Components, summer gas for injection would be readily available from NSTAR Gas's portfolio manager. Gas supply could also be procured through the Company's standard Request for Proposals process.

c) Under the NEA Agreement, if NEA exits the merchant function, NSTAR Gas would gain access to the Upstream Components. With access to the NEA Upstream Components, the NSTAR Gas portfolio becomes even more attractive to potential portfolio managers because obtaining supplies would be generally simple and straight-forward.

Information Request DTE-1-5

Refer to page 17 of Exh. MAG-1. Define the term "must-turn" as used on line 10.

Response

The term "must turn" refers to the minimum turnover provision in Section 8.7 of the Dominion Transmission GSS Rate Schedule. Section 8.7 of the GSS tariff is provided below.

> "8.7 Minimum Turnover. The "Aggregate Minimum Turnover" obligation associated with each GSS capacity entitlement during the Minimum Turnover Period (i.e., each period beginning November 1 of any calendar year and ending April 15 of the next succeeding calendar year) shall be equal to the amount by which Customer's Storage Gas Balance as of November 1 exceeds 35 percent of Customer's Storage capacity as of the same date. Turnover" shall mean withdrawals from storage during the Minimum Turnover Period, as such may be adjusted as appropriate (whether upward or downward) for one or more Inventory Transfers (other than transfers of Winter Period Injections) during the minimum Turnover Period effectuated pursuant to [General Terms and Conditions or "GT&C"] Section 34.4. If the required Aggregate Minimum Turnover has not been met or exceeded, the Customer(s) will be subject to the charges set forth in GT&C Section 35.3.D. The Aggregate Minimum Turnover obligation shall be the responsibility, in the first instance, of the Customer holding such GSS capacity entitlement on November 1 ("November 1 Customer"); however, the November 1 Customer (and any Storage Replacement Customer) may assign responsibility for some or all of the Aggregate Minimum Turnover obligation applicable to (1) any release of such GSS capacity entitlement, as specified in GT&C Section 23.2.F.14c, and /or (2) any inventory transfer as specified in GT&C Section 34.4."

Under the NEA Agreement, NEA will inject gas each summer so that the capacity will be 100 percent full by November 1. This means that NSTAR Gas's minimum turnover obligation will be 65 percent of the total capacity, or 910,000 MMBtu. If NSTAR Gas does not withdraw this quantity of gas each season, it will be subject to the penalty in GT&C Section 35.3.D. This section states that the penalty is equal to two times the applicable fuel charge (currently 2.56 percent) and that the quantity is deducted from the customer's inventory.

Information Request DTE-1-6

Refer to page 17 of Exh. MAG-1. Please provide the dollar amount of the penalties and the process of application for penalties imposed for non-withdrawal of required minimum amounts of storage gas under the Dominion storage contracts. In addition, provide a comparison of these penalties to penalties of similar contracts held by the Company.

Response

The dollar amount of the penalty will depend upon the average cost of gas in the GSS inventory and the amount by which the Company falls short of the Minimum Turnover Requirement. The following is an example of how the penalty would be assessed under the stated assumptions.

⇒ November 1 inventory is 100 percent or 1,400,000 MMBtu.
⇒ Average cost of inventory is $7.50/MMBtu.
⇒ Withdrawals between November 1 and March 31 are 840,000 MMBtu (60% of capacity)

The quantity that the inventory would be reduced by would be:
(910,000 – 840,000)* (2* .0256) = 3,584 MMBtu.

At $7.50/MMBtu, this would cost NSTAR $26,880.

NSTAR Gas has two other Dominion GSS storage contracts that have identical contract provisions. There are no "must turn" requirements in the Company's Texas Eastern storage contracts, National Fuel contract, Steuben Storage contract, or Tennessee storage contract.

Information Request DTE-1-7

Refer to page 17 of Exh. MAG-1. Please submit all calculations and related paperwork that were used to derive projections related to the delivered cost price advantage of the NEA contract.

Response

REDACTED RESPONSE

Please see Attachments DTE 1-7 (a) **CONFIDENTIAL** and Attachment AG 1-7 (b) **CONFIDENTIAL**, which provide the Cost and Flow Summary reports for the two SENDOUT model runs that were used to generate the numbers provided in Exhibit MAG-7 **CONFIDENTIAL**. Attachment AG 1-7 (a) **CONFIDENTIAL** is the run for the NEA Storage Alternative and Attachment AG 1-7 (b) **CONFIDENTIAL** is the run for the Mendon Supply Alternative.

The table on Exhibit MAG-1, page 9, shows the NSTAR Gas design winter resource shortfall from the Company's Department-approved Long Range Forecast on the line labeled, "Citygate Supplies." In every year, the amount of citygate deliveries substantially exceeds the maximum amount of gas that could be obtained to supply the Dartmouth Power capacity. A series of design-year SENDOUT model studies were run to determine the size of additional supply agreements that would be required to meet the Company's design-year requirements.

The table below shows the daily maximum daily quantities ("MDQs") of 151-day supplemental winter citygate supplies that would be required to meet NSTAR Gas's design winter requirements, given the two alternatives being evaluated (i.e, the NEA Storage Alternative and the Mendon Supply Alternative). Note that the MDQs for the supplemental winter citygate supplies are different for the two alternatives because the NEA offer is only a 100-day service, while the Mendon supply service is a 151-day winter supply.

Daily MDQs of 151-Day Winter Service Required to Meet NSTAR Design Year Standards
Under Dartmouth Capacity Supply Alternatives (MMBtu/day)

Year	NEA Storage Alternative	Mendon Supply Alternative
2006-07	3,200	1,300
2007-08	4,700	2,800
2008-09	10,000	9,000
2009-10	13,000	12,200

Once these portfolio alternatives were determined, it was appropriate to perform a normal-year cost analysis of the two alternative portfolios. The supplemental winter citygate supplies identified in the table above were priced at NYMEX plus **[REDACTED]**. The Mendon Supply Alternative to the NEA Storage Alternative was priced at NYMEX plus **[REDACTED]**, which was the price of the most attractive Mendon Supply from the July 2005 RFP. The NEA alternative was priced on the basis of the NEA proposal. The rest of the NSTAR Gas portfolio was modeled with the current MDQs, storage contract capacities, current pipeline and storage contract fuel factors, current rates, and a NYMEX strip.

There were no costs associated with excess capacity because there was no excess capacity.